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TO: Supervisor Yvonne B. Burke, Chair  
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Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
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FROM: Wendy L. Watanabe *Wendy L. Watanabe*  
Acting Auditor-Controller

SUBJECT: **HUB CITIES CONSORTIUM CONTRACT REVIEW - A COMMUNITY  
AND SENIOR SERVICES WORKFORCE INVESTMENT ACT  
PROGRAM PROVIDER – FISCAL YEAR 2006-07**

We have conducted a program, fiscal and administrative contract review of Hub Cities Consortium (Hub Cities or Agency), a Community and Senior Services (CSS) Workforce Investment Act (WIA) program provider.

**Background**

CSS contracts with Hub Cities Consortium, a local public agency to provide and operate the WIA Adult, Dislocated Worker, Rapid Response and Youth Programs. The WIA Adult and Dislocated Worker Programs assist individuals obtain employment, retain their jobs and increase their earnings. The WIA Rapid Response Program provides assistance to companies that are facing a reduction in their work force and assists the soon-to-be dislocated workers cope with career transitions by providing orientation seminars, workshops and materials. The WIA Youth Program is a comprehensive training and employment program for in-school and out-of-school youth ages 14 to 21 years old. Hub Cities is located in the First and Second Districts.

Hub Cities was compensated on a cost reimbursement basis and CSS paid Hub Cities \$3,922,473 for Fiscal Year (FY) 2006-07.

### **Purpose/Methodology**

The purpose of the review was to determine whether Hub Cities complied with its contract terms and appropriately accounted for and spent WIA funds in providing services outlined in their County contract. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State and County guidelines. In addition, we interviewed a number of the Agency's staff and clients.

### **Results of Review**

Hub Cities did not implement 10 (45%) of the 22 recommendations contained in the prior year's monitoring review. In addition, during FY 2006-07 including the FY 2005-06 close-out invoice, the Agency billed CSS \$521,811 in undocumented and unallowable expenditures. For example, Hub Cities:

#### **Undocumented**

- Did not maintain documentation to support \$206,400 in facility operating expenditures billed to CSS.
- Did not maintain appropriate documentation to support \$133,435 (\$93,773 + \$39,662) in expenditure accruals billed to CSS on their FY 2005-06 close-out invoice. The Agency provided internally generated invoices that did not include the vendors' authorized signatures to support \$93,773. The Agency did not provide documentation to support \$39,662.
- Billed CSS \$102,179 in allocated rent, security, and general liability insurance expenditures based on a cost allocation methodology that did not equitably allocate costs to programs that benefited from the expenditures.
- Billed CSS \$2,315 in unsupported participants' wages and fringe benefits related to an out-of-town college preparation program on their FY 2005-06 close-out invoice. Specifically, Hub Cities did not maintain timecards to support the payroll expenditures.

#### **Unallowable**

- Inappropriately billed CSS \$975 in FY 2006-07 for expenditures incurred in FY 2005-06.
- Billed CSS \$59,870 in FY 2006-07 for prepaid gift cards, movie tickets and bus tokens that had not been issued to the WIA participants. In addition, Hub Cities maintained an excessive inventory of gift cards, movie tickets and bus tokens. At

the time of our review, the Agency maintained approximately 3,400 gift cards and other liquid assets in their inventory which represented approximately 10 months of usage.

- Billed CSS \$7,600 in consultant expenditures for services already paid. Specifically, Hub Cities paid one consultant an hourly rate for employment verification while at the same time paying the consultant an additional fixed rate for every employment verified.
- Billed CSS \$7,500 in FY 2007-08 for expenditures incurred in FY 2006-07.
- Inappropriately billed CSS \$1,140 in movie tickets which were provided to the youth participants in FY 2006-07 as incentives for providing the Agency with proof of obtaining their high school diploma. Federal and WIA guidelines prohibit the use of federal funds for non-monetary incentives, such as movie tickets.
- Inappropriately billed CSS \$397 for a repayment amount owed to CSS from Fiscal Year 2005-06.

In addition, Hub Cities did not always comply with WIA and County contract requirements. For example:

- Hub Cities' Cost Allocation Plan was not prepared in compliance with the County contract and the method used to allocate shared program expenditures did not always allocate shared expenditures fairly.
- Hub Cities did not obtain criminal clearances for all seven (100%) employees sampled.
- Hub Cities did not properly prepare the May 2007 bank reconciliations or provide an explanation for the difference between the adjusted bank and book balances, totaling \$45,504, for one of the two checking accounts reviewed.
- Hub Cities did not maintain sufficient internal controls over gift cards and other liquid assets.
- Hub Cities did not maintain appropriate documentation to support the eligibility for two (20%) of the ten Dislocated Worker participants sampled.
- Hub Cities did not report the participants' program activities on the Job Training Automation system for 19 (95%) of the 20 Adult and Dislocated Worker participants sampled.

- Hub Cities did not properly tag any of the 465 items purchased with WIA funds with County property tags.

Details of our review along with recommendations for corrective action are attached.

We are currently finalizing an allegation review requested by CSS. It was alleged that the Agency misappropriated program funds and over billed the WIA program. We expect to issue the report, which identified additional overbillings, within the next 30 days.

### **Review of Report**

We discussed our report with Hub Cities and CSS on July 14, 2008. In their attached response, Hub Cities concurred with 16 of the 22 recommendations and agreed to repay CSS \$83,680 from the \$521,811 total questioned costs. The Agency also indicated that they provided our office with adequate documentation to support the other expenditures noted in our report. Throughout the monitoring review process, we adjusted our report when the Agency provided adequate supporting documentation. In this case, Hub Cities did not always provide adequate supporting documentation. The following are comments from Hub Cities (attached letter dated July 24, 2008) and responses from the Auditor-Controller:

**Agency:**     **The certificates of completion were not required to be maintained because the participants were not enrolled in a training program.**

**A-C:**           Hub Cities reported on the Job Training Automation (JTA) system that the four participants completed the training program. As such, Hub Cities should maintain certificates of completion to support the training reported on the JTA system or ensure that the program activity was accurately entered into the JTA system to reflect the actual program activity the participants completed.

**Agency:**     **There are 13 Intensive Activity Codes in the JTA Handbook. To date, CSS or EDD has not issued a directive stating the "Development of Individual Employment Plan" (IEP) (Code 32) is required to reflect a participants IEP completion. We have used Code 30 to cover all case management activities and not Code 32.**

**A-C:**           At the time of our review, CSS concurred with our recommendation requiring WIA contractors use Code 32 to designate the development of Individual Employment Plans. Subsequent to our review, CSS has indicated that they need to research this matter further. Upon completion of their research, CSS plans to issue instructions to the WIA contractors and provide training on using the appropriate activity codes to describe the

services provided. Based on CSS' need for further research, we have removed this finding and recommendation from the attached report.

**Agency:** All four participants' Individual Service Strategy (ISS) plans have been completed.

**A-C:** As noted in our report, subsequent to our review, Hub Cities provided copies of the updated ISS plans for the four participants. However, three of the four participants' ISS plans remained incomplete. Specifically, the ISS plans were not updated to include the supportive services that were provided to the participants and/or indicate the start and/or end dates when the supportive services were provided.

**Agency:** All cash was and is accounted for. When the monitor reviewed the bank reconciliation, the monitor misread the bank reconciliation ending balance and stated there was a difference in the reconciliation of \$45,054.

**A-C:** We reported that Hub Cities did not provide a copy of their general ledger to support the adjusted book balance listed on the bank reconciliation or provide an explanation of the difference between the adjusted bank balance and the book balance totaling \$45,504. As of July 25, 2008, Hub Cities has not provided the general ledger to support the adjusted book balance or provided an explanation for the \$45,504 difference.

**Agency:** As stated to the Auditor-Controller on July 14, 2008, the authorization to purchase the incentive cards are adequately segregated.

**A-C:** During our July 14, 2008 meeting, Hub Cities' management indicated that the custodian does not authorize the purchases or reconcile the gift cards but that two other employees performed those duties. However, Hub Cities could not provide documentation, such as authorized requisition forms or signed reconciliations, to indicate the two employees performed those duties. In addition, Hub Cities' response indicated that they agreed with the recommendation related to gift cards (Recommendations 5, 6, and 7) and will make appropriate revisions to their procedures.

**Agency:** The Auditor-Controller report states that \$213,600 in unsupported facility costs for FY 2006-07. These are allowable and incurred costs on behalf of the various WIA program.

**A-C:** We reduced the original facility costs we had questioned from \$213,600 to \$206,400 because subsequent to our review, Hub Cities provided

additional documentation to support \$7,200 of the \$213,600 in unsupported facility costs. The \$7,200 related to the annual storage rental. However, Hub Cities did not provide adequate documentation, such as invoices, to support the facility operating expenditures, totaling \$206,400 (\$213,000 - \$7,200) or \$17,200 per month. As indicated in our report, Hub Cities should provide adequate documentation to support the program expenditures or repay CSS for the undocumented expenditures.

**Agency:** **As for the basement lease this is a month-to-month tenancy. We have previously provided the Auditor-Controller the basement lease.**

**A-C:** As indicated in our report, subsequent to our review, Hub Cities provided additional documentation to support \$7,200 of the \$213,600 in unsupported facility costs. The \$7,200 represented the basement rent expenditures for FY 2006-07.

**Agency:** **\$70,280 Shared Program Expenditures April 2007. The allocation is based on participants served/activity in the month. The Auditor-Controller stated that Hub Cities allocated 100% of the net rent and security (in February 2007) to the WIA programs even though three non-WIA programs used the facility. As demonstrated, this is not the case.**

**A-C:** For FY 2005-06, the Agency allocated rent expenditures based on the square footage assigned to each program within the facility. We believe this allocation method more closely allocates building-related expenditures (rent and security) to the programs that benefit from the expenditures. During FY 2006-07, Hub Cities changed the allocation method based on the number of participants served. As a result, Hub Cities allocated 98% of the shared rent and security expenditures in April 2007 to the WIA programs even though the floor plan that the Agency provided indicated that only approximately 61% of the leased facility was occupied by the WIA programs.

CSS agreed that the methodology used by Hub Cities to allocate rent and security expenditures during FY 2006-07 was unacceptable in that WIA bore a disproportionate amount of building-related expenditures using the percentage of clients served allocation methodology.

**Agency:** **The \$10,735 in security expenditures is an allowable WIA expenditure cost. In February, the only participants served/activity was WIA participants. As such, Hub Cities billed 100% of the security expenditures to CSS in accordance with their Cost Allocation Plan.**

**A-C:** See previous response.

**Agency:** **Contrary to the AC Report, Federal WIA guidelines do explicitly permit cash and non-cash youth incentives. This cost is not for "entertainment," but rather is an incentive. The AC Report also characterizes the movie tickets as incentives.**

**A-C:** According to WIA Directive, YTH01-19, "non-monetary incentives (e.g. amusement park tickets, movie passes, and lunches) are not allowable under the WIA, and must be paid out of the contributions and/or general funds." A copy of this WIA Directive, with the effective date of July 1, 2001, was provided to Hub Cities on July 16, 2008.

**Agency:** **As required, Hub Cities provided its cost allocation plan to CSS, which was a part of the required contract documents. Accordingly, CSS reviews this document yearly. We were surprised by this finding because in FY 2005-06, which included the same cost allocation plan, the Auditor-Controller found that the CAP was prepared in compliance with the County contract and costs were appropriately allocated.**

**A-C:** In FY 2005-06, the Agency allocated rent expenditures based on the square footage assigned to each program within the facility. We believe this allocation method more closely allocated building-related expenditures to the programs that benefit from the expenditures. During FY 2006-07, Hub Cities changed the allocation method to participants served. As previously noted, this allocation method did not always allocate shared program expenditures equitably between the programs.

**Agency:** **The \$140,995 is an allowable cost charged to the WIA program. The Auditor-Controller however insists on disallowing those costs because of what they deem are "internally generated invoices," which were not signed by the vendor's authorized signers. However, Hub Cities' staff completes a checklist to determine whether or not to pay the invoice and the invoice ("internally generated invoice") contains a space for Hub Cities internal review and sign-off.**

**A-C:** For approximately \$94,000, the Agency provided invoices that they reported receiving from their vendors. The format of the invoices followed the format that the Agency provided the vendors. However, the invoices did not have the vendors' authorized signatures or other distinguishing marks to indicate the vendors actually submitted the invoices. The invoices as presented appeared to be internally generated.

According to the Auditor-Controller Contract Accounting and Administrative Handbook, Section A, Part 3.2, "Photocopied invoices or receipts, any internally generated documents (i.e., vouchers, request for check forms, requisitions, canceled checks, etc.), and account statements do not constitute supporting documentation for purchases...unsupported disbursements will be disallowed on audit. CONTRACTOR will be required to repay COUNTY for all disallowed costs." Hub Cities' staff also did not always sign off on the checklist to substantiate internal review.

The Agency did not provide documentation to support approximately \$40,000.

**Agency:** Hub Cities billed CSS \$7,600 in consultant expenditures for services already paid. This is not the case. The pay structure is compensation for different scope of work, both of which were achieved by the consultant.

**A-C** Hub Cities did not provide sufficient documentation to support the program expenditures. The Agency submitted unsigned "internally generated invoices" and a contract amendment that was not signed by the consultant or Hub Cities' management to support the billed services.

**Agency:** Hub Cities disagrees with this finding as the Auditor-Controller Handbook which states that "A contractor needs prior approval for out of town travel" was not part of the FY 2005-06 sub grant agreement. Moreover prior approval from CSS was not required under the RWG agreement.

**A-C:** On July 15, 2008, CSS management informed us that FY 2005-06 WIA contract required the contractors to obtain prior written approval from CSS for all out-of-town travel. On September 3, 2008, CSS management indicated that a prior written approval was not required during FY 2005-06. As such, we revised our report accordingly.

**Agency:** The New Mexico College Preparation Program has been an issue of disagreement between the Auditor-Controller, CSS and the Regional Workforce Groups (RWGs) that participate in this program. In a letter dated July 1, 2008, CSS indicated that the matter has been forwarded to the State of California Employment Development Department (EDD) for their review and that this finding remains open until the County receives notification from EDD. This is the second time we have provided the time cards to the Auditor-Controller.



**A-C:** As the Agency indicated, CSS management is currently working with EDD to resolve the issue of the New Mexico College Preparation Program. In addition, as indicated in our report, subsequent to our review, Hub Cities provided the timecards for all 26 participants. However, the timecards for 11 of the 26 participants did not support the payroll expenditures. Specifically, the timecards reported fewer hours worked than paid. As such, Hub Cities needs to repay CSS for the unsupported expenditures.

Due to the confidential nature and volume of the documents provided by Hub Cities, we did not include the attachments of their response.

We thank Hub Cities for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (626) 293-1102.

WLW:MMO:DC

Attachment

c: William T Fujioka, Chief Executive Officer  
Cynthia Banks, Director, Department of Community and Senior Services  
J. V. Kennelly, Executive Director, Hub Cities Consortium  
David Silva, Chairperson, Hub Cities Consortium  
Public Information Office  
Audit Committee

**WORKFORCE INVESTMENT ACT PROGRAM  
HUB CITIES CONSORTIUM  
FISCAL YEAR 2006-07**

**ELIGIBILITY**

**Objective**

Determine whether Hub Cities Consortium (Hub Cities or Agency) provided services to individuals that meet the eligibility requirements of the Workforce Investment Act (WIA).

**Verification**

We reviewed the case files for 30 (4%) (ten from the Adult, Dislocated Worker and Youth Programs) of the 812 participants that received services from July 2006 through June 2007 for documentation to confirm their eligibility for WIA services.

**Results**

All 20 of the Youth and Adult participants met the eligibility requirements for the WIA programs. However, Hub Cities did not maintain appropriate documentation to support the eligibility for two (20%) of the ten Dislocated Worker participants sampled. Specifically, Hub Cities did not maintain appropriate documentation, such as a letter of termination or layoff, to support the participants' eligibility as required by WIA guidelines. A similar finding was also noted during the prior year's monitoring review.

Subsequent to our review, Hub Cities provided additional documentation to support the two participants' eligibility.

**Recommendation**

1. **Hub Cities management ensure that staff maintain appropriate documentation to support the participants' eligibility for program services.**

**BILLED SERVICES/CLIENT VERIFICATION**

**Objective**

Determine whether Hub Cities provided the services in accordance with the County contract and WIA guidelines. In addition, determine whether the participants received the billed services.

## **Verification**

We reviewed the documentation contained in the case files for 30 (4%) participants that received services from July 2006 through June 2007. We also interviewed five Adult, one Dislocated Worker and six Youth participants/guardians.

## **Results**

### **Adult and Dislocated Worker**

The six participants interviewed stated that the services they received met their expectations. However, Hub Cities did not maintain certificates of completion in the participants' case files for four (20%) of the 20 participants sampled to support the completed training reported on the Job Training Automation (JTA) system. The JTA system is used by the State of California Employment Development Department and the Department of Labor to track WIA participant activities.

Subsequent to our review, Hub Cities provided copies of various training certificates for 13 participants. However, the certificates provided did not include certificates needed for the four participants.

### **Youth**

The six participants/guardians interviewed stated that the services the participants received met their expectations. However, Hub Cities did not complete the Individual Service Strategy (ISS) plans as required by WIA guidelines for four (40%) of the 10 participants sampled. Specifically, Hub Cities did not indicate the start and/or end dates for the established goals or complete the service plans section of the ISS plans as required by the WIA guidelines. The ISS plan is used to track the needs and services of the program participants and their progress towards achieving established goals.

Subsequent to our review, Hub Cities provided copies of the updated ISS plans for the four participants. However, three of the four participants' ISS plans remained incomplete. Specifically, the ISS plans did not include the supportive services that were provided to the participants and/or did not indicate the start and/or end dates of when the supportive services were provided as reported on the JTA system.

## **Recommendations**

### **Hub Cities management:**

- 2. Ensure that appropriate documentation is maintained in the participants' case files to support the program activities reported on the Job Training Automation system.**
- 3. Recommendation removed.**

**4. Ensure that staff complete the Individual Service Strategy plans.****CASH/REVENUE****Objective**

Determine whether cash receipts and revenues are properly recorded in the Agency's records and deposited timely in their bank account. In addition, determine whether there are adequate controls over cash, petty cash and other liquid assets.

**Verification**

We interviewed Agency personnel and reviewed financial records. We also reviewed the Agency's May 2007 bank reconciliations.

**Results**

Generally, Hub Cities maintained adequate controls to ensure that revenue was properly recorded and deposited in a timely manner. However, Hub Cities did not properly prepare the May 2007 bank reconciliations. Specifically, Hub Cities did not provide a copy of their general ledger to support the adjusted book balance or provide an explanation for the difference between the adjusted bank balance and the adjusted book balance, totaling \$45,504, for one of the two checking accounts reviewed.

Hub Cities did not maintain sufficient internal controls over gift cards and other liquid assets. Specifically, Hub Cities had one employee who authorized the gift card purchases, received the gift cards, maintained custody of the gift cards and distributed the gift cards. The same employee also conducts a monthly reconciliation of the gift card usage.

All gift cards and other liquid assets were accounted for as of June 29, 2007. However, the number of gift cards maintained in Hub Cities' inventory seems excessive. At the time of our review, Hub Cities maintained an inventory of approximately 3,400 gift cards. Based on their issuance log, the Agency issued approximately 365 gift cards per month. To reduce the risk of loss due to theft or misuse, Hub Cities should maintain a gift card inventory level equal to two months of usage.

On July 14, 2008, Hub Cities management indicated that the monthly reconciliations and the authorization to purchase the gift cards were conducted by another employee other than the custodian. However, Hub Cities could not provide any documentation to support their assertions, such as monthly reconciliations signed by the preparer or reviewer and requisition forms or purchase orders signed by authorized personnel for the purchases of the gift cards.

**Recommendations****Hub Cities management:**

5. Ensure that bank reconciliations are completed accurately and adequately supported.
6. Ensure that there is adequate segregation of duties over gift cards and other liquid assets.
7. Maintain a gift card inventory equal to two months of usage only.

**EXPENDITURES/PROCUREMENT****Objective**

Determine whether program related expenditures are allowable under the County contract, properly documented and accurately billed.

**Verification**

We interviewed Agency personnel, reviewed financial records and reviewed documentation to support 156 non-payroll expenditures transactions billed by the Agency for February and April 2007, totaling \$163,940.

**Results**

Hub Cities overbilled Community and Senior Services (CSS) \$363,522 in undocumented and/or unallowable expenditures. Specifically, Hub Cities:

**Undocumented**

- Billed CSS \$213,600 in unsupported facility costs for Fiscal Year (FY) 2006-07. Specifically, Hub Cities did not provide appropriate documentation, such as copies of agreements and other documentation, such as invoices, to support the actual facility expenditures. Subsequent to our review, Hub Cities provided additional documentation to support \$7,200 of the \$213,600 in unsupported facility costs and did not provide documentation to support \$206,400 (\$213,600 - \$7,200).
- Billed CSS \$70,280 in April 2007 and \$10,735 in February 2007 for shared program expenditures based on an inappropriate cost allocation methodology. Hub Cities allocated the net rent and security expenditures to each program based on a ratio of participants that received services by program within the month to total participants served during the month. However, the methodology used by Hub Cities to allocate rent and security expenditures may not always allocate the expenditures fairly. For example, Hub Cities allocated 98% of the shared rent and security expenditures in

April 2007 to the WIA programs even though the floor plan that the Agency provided indicated that only approximately 61% of the leased facility was occupied by the WIA programs.

#### Unallowable

- Billed CSS \$59,870 at the end of FY 2006-07 for gift cards and bus tokens to be distributed in the following program year.
- Billed CSS \$7,500 in FY 2006-07 for expenditures incurred in FY 2007-08 expenditures. A similar finding was also noted during the prior year's monitoring review.
- Inappropriately billed CSS \$1,140 in movie tickets which were provided to the youth participants in FY 2006-07 as incentives for providing the Agency with proof of obtaining their high school diploma. However, federal and WIA guidelines prohibit the use of federal funds for entertainment costs or non-monetary incentives, such as movie tickets. According to WIA guidelines, unallowable non-monetary incentives must be paid out of contributions and/or general funds.
- Inappropriately billed CSS \$397 for a payment made to CSS for an overbilling from FY 2005-06.

#### Recommendations

##### **Hub Cities management:**

8. **Provide adequate documentation to support the program expenditures or repay CSS \$356,322 (\$363,522 - \$7,200).**
9. **Ensure that expenditures charged to the WIA programs are allowable and adequately documented.**
10. **Ensure that shared program expenditures are appropriately allocated in compliance with the County contract and WIA guidelines.**
11. **Ensure that expenditures charged to the WIA programs are for costs incurred during the contract period.**
12. **Ensure that disallowed costs are paid back to CSS from the Agency's general funds and/or contributions and not re-billed to CSS in the subsequent year's invoice.**

**ADMINISTRATIVE CONTROLS/CONTRACT COMPLIANCE****Objective**

Determine whether the Agency maintained sufficient internal controls over its business operations. In addition, determine whether the Agency is in compliance with other program and administrative requirements.

**Verification**

We interviewed Agency personnel, reviewed their policies and procedures manuals, conducted an on-site visit and tested transactions in various non-cash areas such as expenditures, payroll and personnel.

**Results**

Hub Cities needs to strengthen their internal controls over its business operations. Specifically:

- Hub Cities did not obtain a fire inspection. This finding was also noted during the prior year's monitoring review.
- Hub Cities' accounting and personnel policies and procedures manuals were not in compliance with regulatory guidelines. Specifically, Hub Cities' accounting and personnel manuals did not address policies and procedures on basic internal controls such as reconciling their accounting records, cash management, and bonding employees. This finding was also noted during the prior year's monitoring review.
- Hub Cities did not maintain an appropriate procedural manual for administering the WIA Youth Program. Hub Cities' procedural manual consisted of various WIA directives. However, Hub Cities' procedural manual did not identify specific procedures for administering the WIA Youth Program, such as how to complete the ISS plans in compliance with WIA guidelines.

Subsequent to our review, Hub Cities obtained a fire inspection on April 4, 2008.

**Recommendations****Hub Cities management:**

- 13. Ensure that the Agency's accounting and personnel policies and procedures manuals are in compliance with the regulatory guidelines.**
- 14. Develop and distribute a revised WIA procedural manual and ensure that staff comply with the program requirements.**

**FIXED ASSETS AND EQUIPMENT****Objective**

Determine whether Hub Cities' fixed assets and equipment purchased with WIA funds are used for the WIA programs and are safeguarded.

**Verification**

We interviewed Agency personnel and reviewed the Agency's fixed assets and equipment listing. In addition, we performed a physical inventory and reviewed the usage of 16 (3%) of the 465 items purchased with WIA funds.

**Results**

Hub Cities used the equipment purchased with WIA funds for the WIA programs and the assets were safeguarded. However, Hub Cities did not properly tag all 16 (100%) items sampled with County property tags as required by the County contract. According to Agency management, Hub Cities did not tag any of the 465 items purchased with WIA funds with County property tags. Agency management indicated they requested County property tags from CSS but CSS confirmed that the Agency did not submit such a request as of June 2007. This finding was also noted in the prior year's monitoring report.

**Recommendation**

- 15. Hub Cities management ensure that all fixed assets and equipment are properly tagged with County property tags.**

**PAYROLL AND PERSONNEL****Objective**

Determine whether payroll expenditures were appropriately charged to the WIA programs. In addition, determine whether personnel files were maintained as required.

**Verification**

We traced the payroll expenditures invoiced for 33 employees and 74 participants totaling \$162,683 for February 2007 to the Agency's payroll records and time reports. We also interviewed six employees and reviewed the personnel files for seven employees assigned to the WIA programs.

**Results**

Hub Cities appropriately charged payroll expenditures to the WIA programs. However, Hub Cities did not obtain criminal clearances or signed employee acknowledgement



and confidentiality agreements for all seven (100%) employees sampled. In addition, Hub Cities did not conduct the annual performance evaluations for two (29%) of the seven employees sampled, or maintain copies of the employee's resume or application for one (14%) of the seven employees sampled as required by the County contract. Similar findings were also noted during prior year's monitoring review.

### **Recommendations**

#### **Hub Cities management:**

- 16. Obtain criminal clearances for all employees.**
- 17. Ensure that the annual performance evaluations are completed and maintained in the employees' personnel files.**
- 18. Ensure that the required documentations are maintained in the employees' personnel files.**

### **COST ALLOCATION PLAN**

#### **Objective**

Determine whether Hub Cities' Cost Allocation Plan was prepared in compliance with the County contract and the Agency used the plan to appropriately allocate shared program expenditures.

#### **Verification**

We reviewed the Cost Allocation Plan and a sample of expenditures incurred by the Agency from April through June 2006 and February and April 2007 to ensure that the expenditures were properly allocated to the Agency's programs.

#### **Results**

In FY 2005-06, the Agency allocated rent expenditures based on the square footage assigned to each program within the facility. We believe this allocation method more closely allocated building-related expenditures (rent) to the programs that benefit from the expenditures. During FY 2006-07, Hub Cities changed the allocation method to allocate building-related expenditures based on the ratio of participants served within each program to total participants served. As a result, Hub Cities allocated approximately 98% of the shared rent and security expenditures in April 2007 to the WIA programs even though the floor plan that the Agency provided indicated that only approximately 61% of the leased facility was occupied by the WIA programs.

CSS agreed that the methodology used by Hub Cities to allocate rent and security expenditures during FY 2006-07 was unacceptable in that WIA bore a disproportionate

amount of building-related expenditures using the percentage of clients served allocation methodology.

### **Recommendations**

**19. Hub Cities management revise the Agency's Cost Allocation Plan to allocate building-related expenditures using a methodology that more accurately allocates costs to the programs the benefit from the expenditures.**

**20. Recommendation removed.**

### **CLOSE-OUT REVIEW**

#### **Objective**

Determine whether the Agency's Fiscal Year (FY) 2005-06 final close-out invoices for the WIA Adult, Dislocated Worker, Rapid Response and Youth Programs reconciled to the Agency's financial accounting records.

#### **Verification**

We traced Hub Cities' FY 2005-06 general ledgers to the Agency's final close-out invoices for FY 2005-06. We also reviewed a sample of expenditures incurred in August 2005, April, May and June 2006.

#### **Results**

Hub Cities' final close-out invoices reconciled to the Agency's financial records. However, Hub Cities' overbilled CSS \$257,835 in undocumented and/or unallowable expenditures. Specifically, Hub Cities:

##### **Undocumented**

- Did not provide documentation to support \$39,662 in FY 2005-06 expenditure accruals billed to CSS.
- Submitted invoices that the Agency reported they received from the vendors to support \$93,773 in FY 2005-06 expenditure accruals billed to CSS. The invoice formats were based on a template that Hub Cities requested the vendors use. However, the invoices that Hub Cities provided did not include the vendors' authorized signatures or other distinguishing marks to indicate that the vendors actually submitted the invoices.

- Billed CSS 100% of the general liability insurance expenditures in May 2006 instead of allocating the shared program expenditures among the programs that benefited from the expenditure as required. The amount billed totaled \$21,164.
- Billed CSS \$16,594 in August 2005 in unsupported participants' wages and fringe benefits related to an out-of-town college preparation program. Specifically, Hub Cities did not maintain timecards to support the payroll expenditures.

Subsequent to our review, CSS Hub Cities provided the timecards for all 26 participants. However, the timecards for 11 of the 26 participants reported less hours worked than the hours paid. The unsupported wages totaled \$2,315 (\$16,594 - \$14,279).

#### Unallowable

- Billed CSS \$7,600 in consultant expenditures for services already paid. Specifically, Hub Cities paid one consultant an hourly rate for employment verification while at the same time paying the consultant an additional fixed rate for every employment verified.
- Billed CSS \$76,218 in FY 2006-07 for expenditures incurred in FY 2005-06. In August 2008, the Agency repaid CSS \$75,243 resulting in a balance of \$975.
- Billed CSS \$2,328 in June 2008 for a voided check that was never reissued. Subsequent to our review, Hub Cities provided additional documentation to support that Hub Cities reissued the \$2,328 check.
- Billed CSS \$496 in unsupported out-of-town travel expenditures. Specifically, Hub Cities did not obtain CSS approval as required by the County contract or provide documentation to support that the travel expenditures related to the WIA programs.

Subsequent to our review, CSS informed us that during FY 2005-06, prior approval was not necessary.

#### Recommendations

**Refer to Recommendations 9, 10 and 11.**

- 21. Hub Cities management provide CSS adequate documentation to support the program expenditures or repay CSS \$165,489 (\$257,835 - \$75,243 - \$14,279 - \$2,328 - \$496).**

**PRIOR YEAR FOLLOW-UP****Objective**

Determine the status of the recommendations reported in the prior monitoring review completed by the Auditor-Controller.

**Verification**

We verified whether the outstanding recommendations from FY 2005-06 monitoring review were implemented. The report was issued on June 15, 2007.

**Results**

The prior monitoring report contained 22 recommendations. Hub Cities implemented nine recommendations. As previously indicated, the findings related to Recommendations 1, 2, 3, 11, 13, 15, 17 and 18 contained in this report were also noted during the prior year's monitoring review. The remaining five recommendations required the Agency to repay CSS \$41,479, determine the amount charged to CSS for the ineligible participant and repay CSS, and implement the outstanding recommendations from FY 2004-05 monitoring report.

Subsequent to our review, Hub Cities repaid CSS \$41,479 on July 14, 2008.

**Recommendation**

**22. Hub Cities management implement the outstanding recommendations.**



July 24, 2008

*Jeff Kennelly*  
Executive Director

*Board of Directors:*

*David Silva*  
Chairman

*Maria Davila*  
Vice-Chairman

*Chuck Bookhammer*

*Sergio Calderon*

*John Nugent*

*Maria Santillon*

Wendy L. Watanabe  
Acting Auditor-Controller  
County of Los Angeles Department of Auditor-Controller  
Kenneth Hahn Hall of Administration  
500 West Temple Street, Room 525  
Los Angeles, California 90012-2706

Re: Response of Hub Cities Consortium to County of Los Angeles  
Auditor-Controller Review Letter dated June xx, 2008.

Dear Ms. Watanabe:

*Serving residents of:*

*Cudahy*

*Huntington Park*

*Lynwood*

*Maywood*

*South Gate*

This letter, along with its attachments, constitutes the response of the Hub Cities Consortium's ("Hub Cities") to the draft report dated July xx, 2008 issued by the County of Los Angeles Auditor-Controller. That report was based upon a review of Hub Cities Fiscal Year 2006-07 WIA Adult, WIA Dislocated Worker, WIA Youth and Rapid Response contracts with the County of Los Angeles Department of Community and Senior Services ("CSS"). The report shall be referred to as the AC Report. Our response is organized to provide a detailed response to each of the major topic headings in the detailed AC Report, along with the recommendations contained therein.

## HUB CITIES RESPONSE TO REPORT

### ELIGIBILITY

Hub Cities has no comments to the narrative.

#### Recommendation No. 1

The AC Report recommends that Hub Cities management ensure that staff maintains appropriate documentation to support the participants' eligibility for program services.



**HUB CITIES CONSORTIUM** A Public Entity

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The AC Report recommends that Hub Cities management ensure that staff maintains appropriate documentation to support the participants' eligibility for program services.

While Hub Cities strives to ensure that files are maintained with the appropriate documentation, we concur with the recommendation.

## **BILLED SERVICES/CLIENT VERIFICATION**

### **Adult and Dislocated Worker**

The AC Report states that Hub Cities did not maintain certificates of completion in the participants case files for four of the 20 participants sampled to support the training reported as completed on the JTA system. The certificates of completion, however, were not required to be maintained because they were not enrolled in a training program. For example, one participant only received supportive services. None of the four participants were coded in a training activity to necessitate a certificate of completion. The training codes in the JTA system are 50- through 60. Copies of the participants and the coded activity reports are attached as Attachment No.1.

The AC Report also states that Hub Cities did not report the participant's program activities, such as completion of training and Individual Employment Plan on the JTA system for 19 of the 20 participants sampled. The issue centers on the requirement from the monitor that Hub Cities enter these participants as Code 32 to acknowledge the completion or achievement of an Individual Employment Plan ("IEP"). Code 32, however, refers to the "development" of an IEP. The WIA JTA System Client Forms Handbook provides "an adult or dislocated worker WIA client must have at least one registered core activity . . . and they must have at least one intensive activity." This was complied with for all participants sampled.

There are 13 Intensive Activity Codes in the JTA Handbook. To date, CSS or EDD has not issued a directive stating the "Development of Individual Employment Plan" (Code 32) is required to reflect a participants IEP completion. Code 32 is a description of some of the activities and objectives that should be included in the development of the IEP so the participant may achieve employment goals. Code 32 does not indicate that it must be used upon achievement or completion of participants' employment goals. We have used Code 30 to cover all case management activities and not Code 32.

We discussed this with the monitors recently during our exit conference, but also during our exit conference with the monitor for Fiscal year 07-08 where the same issue was raised.

We have raised this issue with Kyle Tajima at the County regarding the use of Code 32. He informed us that the County has no requirements as to what activity codes are used. If CSS desires that we utilize this Code in the future we request that the CSS or the Auditor Controller provide us with a Directive or policy that mandates use of this JTA Code. Accordingly, we request that this finding be removed until clarification is achieved between the CSS and the Auditor Controller.

#### Youth

The AC Report states that Hub Cities did not complete the Individual Service Strategy ("ISS") plans as required by WIA guidelines for four (40%) of the 20 participants sampled. All four participant ISS have been completed. Copies of the ISS for each participant are attached as Attachment 2.

#### Recommendations 2, 3 and 4

The AC report provides three recommendations to ensure that appropriate documentation is maintained in the participant case files, accurately updating of the JTA system and completion of the ISS Plans.

Hub Cities agrees with Recommendations 2, 3 and 4 and we will review and revise our procedural manuals as necessary to implement the recommendations. In addition, we have distributed to appropriate staff, County Youth Directive #LACOD-WIAD08-16 regarding the methods in which to properly fill out the ISS.

As discussed above, Hub Cities seeks clarification and or a Directive or policy on the issue of participant coding.

#### **CASH/REVENUE**

The AC Report recognizes that Hub Cities "maintained adequate controls to ensure that revenue was properly recorded and deposited in a timely manner." Notwithstanding, the AC states that Hub Cities did not properly prepare the May 2007 reconciliations because we did not provide a copy of our general ledger to support the adjusted book balance or provide an explanation for the difference between the adjusted bank and book balances totaling \$45,504. However, this is incorrect, as all cash was and is accounted for.

When the monitor reviewed the bank reconciliation, the monitor misread the bank reconciliation ending balance and stated that there is a difference in the reconciliation of \$45,054. The May 2007 bank reconciliation from the General Checking Account did

*reconcile with an ending cash balance of - \$42,107.84 as of May 31, 2007. We acknowledge that the general ledger to support the book balance was not provided. However, the May 2007 bank reconciliation demonstrates that all checks, payments and deposits are accounted for.*

#### **Recommendations 5, 6 and 7**

The AC Report provides three recommendations to ensure that bank reconciliations are completed accurately and adequately supported, ensure adequate segregation of duties over gift cards and other liquid assets and maintain a gift card inventory equal to two months of usage only.

Hub Cities agrees to implement Recommendation No. 5 to ensure that bank reconciliations are completed accurately and adequately supported. Hub Cities is in the process of engaging with an outside Certified Public Accounting firm for the purpose of implementing the recommendation and to improve our cash/revenue process.

As stated to the AC on July 14, 2008, the monthly reconciliations and authorization to purchase the incentive cards are adequately segregated. Notwithstanding, we will review our procedures to ensure that monthly reconciliations are signed by the preparer or reviewer and requisition forms are signed by authorized personnel for the purchase of incentive cards and implement Recommendation No. 6

In order to implement Recommendation No. 7, the Executive Director has directed that no incentive cards be purchased so that the current inventory is depleted.

Accordingly, Hub Cities agrees with Recommendations 5, 6 and 7 and will make appropriate revisions to our current procedures to implement.

### **EXPENDITURES/PROCUREMENT**

#### **\$213,600 Facility Costs**

The AC Report states that \$213,600 is unsupported facility costs for FY 2006-07. Of this amount, \$7,200 is annual storage rental amount for the basement which is leased on a month-to-month basis, and \$206,400 is for the common area costs, more fully described below. These are allowable and incurred costs on behalf of the various WIA programs. Hub Cities disagrees with the finding for the following reasons.



*The \$206,400 is for the common area costs, which consists of janitorial and maintenance costs for common areas such as hallways, restrooms, entryways, stairwells and utilities such as gas, water, electricity and trash. The detail is included in the budget adopted yearly by Hub Cities and is attached as Attachment No. 3.*

Pursuant to our lease, these are costs paid to the landlord as part of the master facility lease. The landlord has provided the actual costs to support this charge, however, this has not been provided to Hub Cities since 2004. Accordingly, this has been a flat fee amount and has not changed. In essence, the actual costs for utilities, janitorial and maintenance services has not changed since 2004, even though we believe the actual costs for such services have risen substantially in the last four years. Nevertheless, during our exit conference the Auditor-Controller recommended that we request an *updated accounting for the actual costs from the landlord. We have done so and letter is attached as Attachment No. 4.* We have requested that the landlord provide FY 06-07 by July 31 and 05-06 by August 31. Upon receipt we will provide the documentation to you and recalculate the amount. We presume that the net result is likely to be increased expenses for Hub Cities, and ultimately the County, and that no costs will be disallowed or will need to be repaid. As for the basement lease this is a month-to-month tenancy. We have previously provided the Auditor-Controller the basement lease.

**\$70,280 Shared Program Expenditures April 2007**

As required by CSS, Hub Cities provides its cost allocation plan which is part of the required contract documents. Accordingly, CSS reviews this document yearly. We were surprised by this finding as in Fiscal Year 05-06, which included the same cost allocation plan, the Auditor-Controller found that the cost allocation plan was "prepared in compliance with the County contract and costs were appropriately allocated." The excerpt from the Auditor Controller report is attached as Attachment No 5.

Accordingly, Hub Cities allocates all costs in accordance with its cost allocation plan submitted to and approved by CSS.

The April 2007 allocation is based on participants served/activity in the month of April 2007 for all programs. This includes WIA programs, STEP, GLABA and non-profit. The expenditures for April 2007 were equitably distributed to all programs based on the following percentages: non-profit .31%, WIA-Youth 43.08%, GLABA .63%, STEP .94%, WIA Adult 34.38%, WIA-DW 19.50% and Rapid response 1.25%. The documentation for this allocation is attached as Attachment No. 6. *We will note that on page 9 of the AC Report, the Auditor Controller stated that Hub Cities allocated 100% of the net rent and security to the WIA programs even though three non-WIA programs used the facility. As demonstrated above, this is not the case.*

**\$59,879 for Incentive Cards**

The AC Report provides that Hub Cities billed CSS \$59,870 in FY 06-07 for incentive cards that were not yet disbursed to WIA participants during FY 06-07. We agree that the incentive cards were not disbursed in FY 06-07, however, \$54,430 in incentive cards were disbursed in FY 07-08. Since it is now too late to include the incentive cards for Fiscal year 07-08 as the time to include costs has expired, Hub Cities will be requesting that this cost be allowed as a stand-in cost pursuant to federal regulations. We agree to repay the remaining \$4,400 which constitutes the left-over inventory from the original \$59,870. As such those cards will become inventory of Hub Cities Consortium and not the County. If the cards are utilized in Fiscal Year 08-09, we will be allocating that cost to the relevant WIA programs and the reimbursement received from the County will be credited to Hub Cities operating fund (which is non-WIA funds).

**\$10,735 Security Expenses—February 2007**

For this month, the \$10,735 is an allowable WIA expenditure cost. The AC Report states that Hub Cities inappropriately billed 100% security expenditures to CSS instead of allocating the shared program expenditures among the programs benefitted. However, in accordance with our cost allocation plan reviewed and approved by CSS, costs are allocated by participants served/activity in the month. In February, the only participants served/activity was WIA participants. There was no STEP, GLABA and non-profit activity for that month. Hub Cities has provided the Auditor-Controller the cost allocation. The cost allocation is attached as Attachment No. 7.

**\$7,500 Billed for 07-08 Expenditures.**

This expense was for \$10,000 for the renewal of a case management software used by all WIA programs paid to Primeworks for the license. In this case, it was a two year license. The Auditor Controller has disallowed \$7,500 because only six months of the cost benefitted the program year. While we disagree with the finding, we request that the Auditor-Controller provide guidance on the issue of allocating costs for software license renewals. In many cases, there is considerable cost savings if the software license is renewed for more than one year and often times the licensee is not provided a choice as to the renewal costs, including time-frame.

Since it is now too late to include the software license renewal fee for FY 07-08 (\$5,000 of the \$10,000 benefitted 07-08), as the time to include costs has expired, Hub Cities will be requesting that this cost be allowed as a stand-in cost pursuant to federal regulations. We agree to repay the remaining \$2,500 from our operating fund, however, we will be charging program year 08-09 for the remainder of the license which is July 1, 2008 through December 31, 2008.

**\$1,140 for Incentive Cards**

The movie tickets are used as an incentive for youth participants. Contrary to the AC Report, Federal WIA guidelines do explicitly permit cash and non-cash youth incentives. This cost is not for "entertainment," but rather is an incentive. The AC Report also characterizes the movie tickets as an incentive.

WIA specific statutory and regulatory language allows cash and non-cash youth incentives. In fact, the United States Department of Labor has issued a "Q&A" on this particular topic.

Nevertheless, because this is an issue for the Auditor Controller and likely to be an issue for Fiscal Year 07-08, we will be depleting our inventory and discontinue using movie tickets as non-cash incentives for youth. We will repay CSS the \$1,140.

**\$397**

Hub Cities agrees with this finding and will pay CSS \$397.00

**Recommendation No. 8, 9, 10 and 11**

Recommendation No. 8 states that Hub Cities should repay CSS \$363,522. *Hub Cities disagrees with this recommendation as \$355,085 was allowable and appropriately charged to the Program as Program expenditures or stand-in costs. We agree to repay the difference of \$8,437 to CSS.*

As for Recommendations No. 9, 10 and 11, *Hub Cities concurs and will continue to implement the recommendations.*

**ADMINISTRATIVE CONTROLS/CONTRACT COMPLIANCE**

Hub Cities has no comment on the narrative

**Recommendations 13 and 14**

The AC Report provides two recommendations to ensure that our accounting and personnel policies and procedures manual are in compliance with the regulatory guidelines and to develop and distribute a revised WIA procedural manual and ensure that staff complies with the program requirements.

Hub Cities concurs and will work in adopting and implementing the recommendations.

## **FIXED ASSETS AND EQUIPMENT**

Hub Cities has no comment on the narrative.

### **Recommendation No. 15.**

Hub Cities will implement Recommendation No. 15 and has already requested tags from the County as demonstrated by the electronic memorandums attached as Attachment No. 8. Please note that Ms. Yvonne Vonnurt indicated that although she will be providing Hub Cities with tags, she will only be able to send enough tags for the disposal of obsolete equipment and not for our entire inventory. Upon receipt from the County, we will promptly tag all County equipment. It should be noted that the monitor selected a large sample size of County property and confirmed that it was all being properly utilized. Last, for the County's information, County Directive WIAD08-27 lists the incorrect person to contact on this issue. We have informed Ms. Vonnurt so that she can correct the contact information on the Directive.

## **PAYROLL AND PERSONNEL**

Hub Cities has no comment on the narrative.

### **Recommendation No. 16, 17 and 18.**

Recommendation No. 16 provides that Hub Cities' management obtain criminal clearances for all employees. In April 2008, the Board of Directors approved the comprehensive policies and system for obtaining this information as Hub Cities is required to follow specific procedures set forth in the California Penal Code. A copy of the Resolutions adopted by the Board of Directors is attached as Attachment 9. Accordingly, we are in the process of implementing Recommendation No. 16.

## **COST ALLOCATION PLAN**

As required by CSS, Hub Cities provides its cost allocation plan which is part of the required contract documents. Accordingly, CSS reviews this document yearly. We were surprised by this finding because in Fiscal Year 05-06, which included the same cost allocation plan, the Auditor-Controller found that the cost allocation plan was

"prepared in compliance with the County contract and costs were appropriately allocated." The excerpt from the Auditor Controller report is attached as Attachment 10.

Accordingly, Hub Cities allocates all costs in accordance with its cost allocation plan submitted to and approved by CSS. Moreover, this methodology is accepted by the United States Department of Labor and is widely used.

Hub Cities' cost allocation plan is allocated by participants served/activity in the month. As stated above for the security expenditure, there was no activity except WIA program activity in that month. Accordingly, it was improper to charge other programs for no benefit received. For example, the County Youth Jobs program (a non-WIA program) is active only during the months of July, August and September. It would be inappropriate to charge Youth Jobs for rent for the month of January. If we did, that charge would be disallowed by the County because there was no activity in January and the program received no benefit in January. Accordingly we disagree with this find and request that it be removed.

#### **Recommendations No. 19 and No. 20.**

Based on the Cost Allocation Plan we submitted to the County, as we did in FY 05-06 which the monitor found appropriate and in compliance with County contract and other regulatory requirements, we do not believe that a reallocation for FY 06-07 is required. Accordingly, we disagree with Recommendation No. 20.

As for Recommendation No. 19, we are engaging a Certified Public Accounting firm to review our cost allocation plan and provide options for improvement, if necessary, to ensure compliance with the County contract. If improvements are made to the Cost Allocation Plan or we determine that a different method of cost allocation is appropriate, then we will work with the County to seek its guidance and approval.

### **CLOSE-OUT REVIEW**

The AC Report states that although Hub Cities close-out invoices reconciled to our financial records, Hub Cities overbilled CSS \$255,467 in unsupported and/or unallowable expenditures. We address each category as follows:

#### **\$140,995 Accruals for June 2006**

The \$140,995 amount includes \$39,663 of allegedly unsupported documentation and the remaining \$93,733 based on "internally generated invoices" which were not signed

by the vendor's authorizes signers. This amount also includes \$7,600 in consultant expenses services already paid.

The \$140,995 is an allowable cost charged to the WIA program. The Auditor Controller however insists on disallowing those costs because of what they deem are "internally generated invoices." As explained to the Auditor Controller in the exit conference, Hub Cities provides an invoice format to our vendors for their completion as demonstrated by a letter sent to Vendors and attached as Attachment No 11. *This is similar to the CSS providing its own invoice document for vendors to fill out such as we recently did for our 07-08 close-out.* We do so as part of a checklist that the appropriate staff member completes to determine whether or not to pay the invoice. The invoice contains a space for Hub Cities internal review and sign-off, which is completed by Hub Cities

Hub Cities has been using this invoice format since 2000 and it has never been questioned. Nevertheless, we are asking all of our vendors to provide us letters and/or invoices on their letterhead to demonstrate that the invoices were proper. We will provide the Auditor-Controller those we have been able to obtain as Attachment No. 16. The remainder will be provided as soon as they are received. Nevertheless, these costs are appropriately charged to the WIA Programs and are allowable.

**\$7,600**

The AC Report states that Hub Cities billed CSS \$7,600 in consultant expenditures for services already paid. Specifically, Hub Cities paid a consultant an hourly rate for employment verification while at the same time paid the consultant an additional fixed rate for every employment verified. This is not the case as demonstrated by the contract documents attached as Attachment No. 12.

*The scope of work for the consultant at issue has two exhibits. Exhibit A provides, among other duties, that the consultant will assess customer backgrounds and work history to make appropriate training and/or site referral to appropriate employer or vendor; develop and update customer's career plan; evaluate assessment results; conduct employment readiness training workshops; and conduct post-program counseling. For this work, the consultant was paid at an hourly rate.*

*Exhibit B of the consultant agreement provides a flat fee rate for placements achieved for both Adult and Dislocated customers during the time frame of July 1, 2005 through June 30, 2006. Exhibit B clearly provides the parameters that that the consultant needs to achieve to earn such compensation. Therefore, the pay structure is compensation for different scopes of work, both of which were achieved by the Consultant.*

The invoices for the consultant were \$4,200 and \$3,400 for the scope of work under Exhibit B. These invoices are correct and properly charged to the 05-06 program year because the placements occurred in that time-frame.

**\$496 in Out-of-Town Expenditures**

Hub Cities disagrees with this finding as the Auditor Controller Handbook which states that "A contractor needs prior approval for Out of Town travel" was not part of the FY 05-06 sub grant agreement. Moreover prior approval from CSS was not required under the RWG agreement. Copies of the brochures and written approval from Carol Domingo on the same conference the following year were given to the AC at the 2006-07 exit conference.

Last and more fundamentally is the fact that the County has approved the same travel expenditure for 2007-2008 and the letter from Carol Domingo is attached as Attachment No. 13. This letter establishes and confirms the relation to the WIA programs as part of business services required under WIA. We hope that CSS will maintain continuity in its approval process and determine this an allowable cost.

**\$21,164 General Liability Insurance**

Hub Cities agrees that the General Liability Insurance should have been allocated among the programs benefited. Hub Cities will reallocate the liability insurance based on a more reasonable methodology that will equitably distribute cost to all programs that benefit from the coverage. Further, liability insurance is an allowable cost under OMB Circular A-87 and has always been allowed by CSS.

**\$76,218 Expenditures in FY 05-06 incurred in FY 06-07**

We agree to repay CSS \$75,243 and not the full amount because \$975 was not charged to any of the WIA programs.

**\$16,594 for New Mexico Program Wages**

Wages for youth participants are allowable costs under the WIA Youth program. The New Mexico College Prep program provides paid work-experience to the participants. The participants properly filled out timecards signed by their worksite supervisor.

Copies of the timecards for each of the 26 participants including the earnings history report stating the hours worked by each participant is attached as Attachment No. 14.

We understand that the New Mexico College Prep Program has been an issue of disagreement between the Auditor Controller, CSS and the RWG's that participate in this program (Hub Cities and LA Works). As repeatedly expressed to the Auditor Controller in a letter dated July 1, 2008, Margaret Quinn states that this matter has been forwarded to EDD for their review. Further, this letter states the findings 'remain open' until the County receives notification from EDD. A copy of this letter is Attachment No. 15. This is the second time we have provided the time cards to the Auditor Controller for a program that ended nearly three years ago.

**Recommendations No. 21, 22 and 23**

The Auditor Controller recommends that we implement Recommendations No. 9, 10 and 11 in addition to Recommendation Nos. 21, 22 and 23. We concur and will continue to implement Recommendations No. 9, 10, 11 and 22.

As for Recommendation No. 2, which states that Hub Cities should repay CSS \$255,467, Hub Cities disagrees with this recommendation as \$180,244 was and is an allowable cost to the WIA Programs. Hub Cities agrees to repay CSS \$75,243 for expenditures incurred in FY 2006-07 billed in FY 2005-06

As for Recommendation No. 23, we disagree as participant wages is an allowable cost under the WIA Youth Program.

**PRIOR YEAR FOLLOW-UP**

We have already implemented most of the Recommendations from the previous year, but will complete the remainder of the recommendations no later than August 31, 2008.

In closing, we appreciate the opportunity to meet with the Auditor-Controller on July 14, 2008 and look forward to resolving the outstanding findings in an expeditious manner. We will be including the attachments under separate cover.

Sincerely,



Jeff Kennelly  
Executive Director